Breakers, A Full Guide

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👉 This guide requires existing knowledge on the following concepts: Liquidity, Market Structure, Orderblocks, and Fair Value Gaps

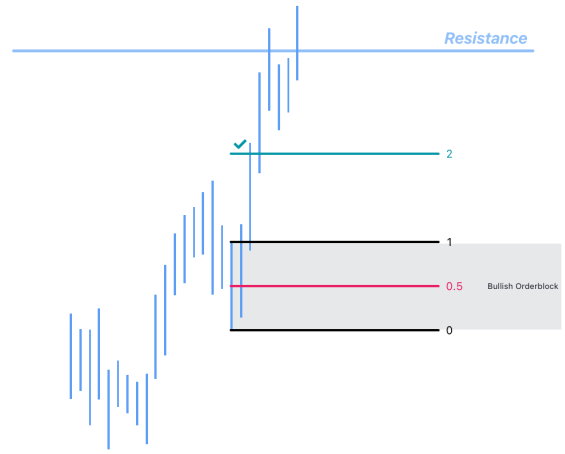
Introduction to Breakers

Even if you are familiar with breakers, give this section a read.

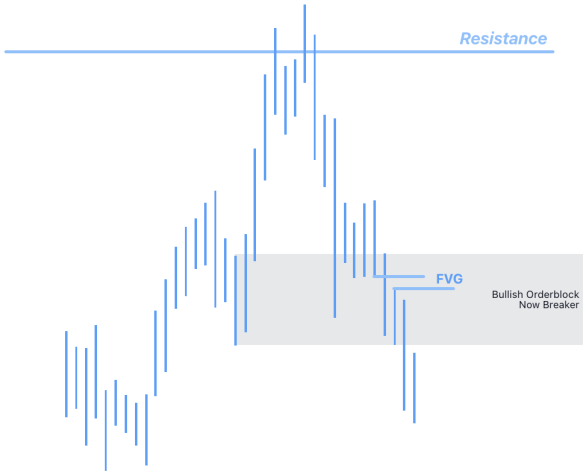
Here's the breakdown of how breakers are formed.

1. In this example, let's pretend we're in a bullish trend, but that we're reaching a level of strong resistance, such as a higher time frame orderblock, FVG, High/Low, etc.
    a. This means we'll be covering breakers being used as a reversal pattern.

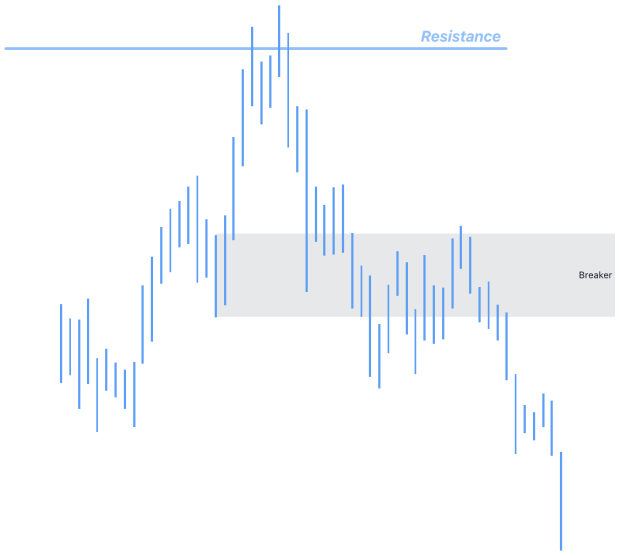
2. Then, the down close candles form a bullish orderblock. (Bearish orderblocks would be the up close candles)
    a. When the expansion upwards occurs and a bullish orderblock is formed, the expansion should ideally at least travel 1:1 of the orderblock size.
        i. What I mean by this is, If you place your fibonacci on the high and low of the orderblock, it should at least travel to the 2 or -1 fib level, whichever level shows as an extension to the upside.
        ii. This extension is crucial for the formation of an orderblock and the breaker.



3. Once the expansion upwards occurs, our level of resistance is tagged.
    a. The market here should now reject and rip through the orderblock, which *fails* to hold. Hence the name “failed orderblock”
    b. When the market rips through the orderblock, ideally we want to see at least one FVG form.
        i. The formation of a FVG within the failed orderblock is not a necessity, however, it is great confluence.
    c. Once this occurs, the bullish orderblock is now a bearish breaker, and the market structure can be confirmed as truly broken and now shifted to a bearish structure.



4. Next, we will want to see the market retrace, retest the breaker, and reject.
    a. A retest of the FVG is not necessary, however, a retest and rejection of the FVG can be additional confirmation and give you more confidence that you are on the right side of the market.
    b. When retesting the breaker, ideally you want to see a sharp rejection after retesting it.
        i. If the market retests the 50% of the breaker but starts showing strength past it, the breaker no longer is high probability.
        ii. However, this is not to say that there isn't times when market wicks past the breaker, but shows respect using the bodies of the candles for example.
        iii. In these kind of scenarios, the breaker may still act as a point of interest, however it's better to wait for another confirmation, such as a market structure break followed by an FVG retest.



In this example, you can see we wicked right outside the breaker, and continued to reject off of it.

By the way, if you couldn't tell already, this was Bitcoin on the weekly timeframe!

The point of interest for resistance was the previous All Time High.

Now that we've covered the Introduction to Breakers, lets discuss the theory behind breakers.

Breaker Theory

There is actual logic behind the breaker theory and why they are so accurate and work as often as they do.

Essentially, the theory behind it is this:

1. While the orderblock is being formed, this is big money accumulating their longs. (In an example where we have a bullish orderblock)
2. Once the market makers are in, the market starts to expand higher, then rejects at a point of interest.
3. The market then runs for sell side liquidity (in a bearish breaker example) in a rapid fashion, putting the market makers who longed at the orderblock in a losing position and not giving them the chance to consider closing their position.

    a. Keep in mind that due to the market makers' sheer volume, they do not have the ability to use stop losses the same way we do.

    b. Therefore, when we make the run for the opposing sides liquidity, the market makers will now be looking to exit at a fair price (which would be a level close to their entry)

4. The market then returns to the now breaker block, and the market makers exit their longs for a loss; the buy stops then becomes fuel for the market to go lower.

    a. The longs being closed for a loss is the equivalent of opening shorts, which in turn brings price lower.

That is the theory behind the breaker block and why they play out the way they do. Now that we understand that, lets go through how to select your orderblock.

Choosing Your Orderblock

Choosing an orderblock can be tricky, however, with the right parameters set, you won't be questioning whether or not the block you're looking at is an orderblock or not.

There is a few pieces of criteria that I have for a high probability orderblock:

- Sweep of liquidity
  - Either local buyside/sellside, or external
    - If both are present, even better
- Convincing market structure break
  - Ideally you want to see a strong candle close MSB
- Expansion 2x the size of the OB
  - Use the fib on the high and low and measure either the -1 or 2 on Fibonaccci Retracement Tool
- Sizable body
  - Dojis are not high probability
  - Up to 4 consecutive candles

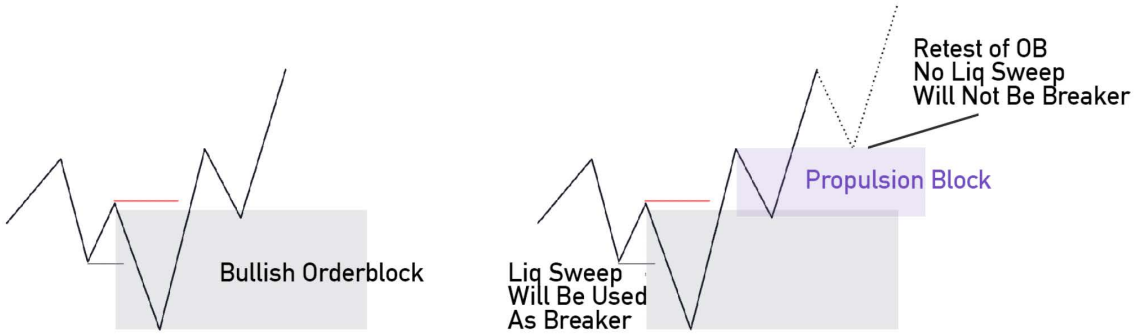
Keep in mind that the orderblock you want to choose is the **origin** of the move that generated the market structure break.

> 💡 You are buying where the limit orders that were unfilled are left behind.

This is important to keep in mind when choosing your orderblock as you don't want to choose the candles that were formed already on the way up.

The ideal orderblock used for your breaker block is NOT a propulsion block.

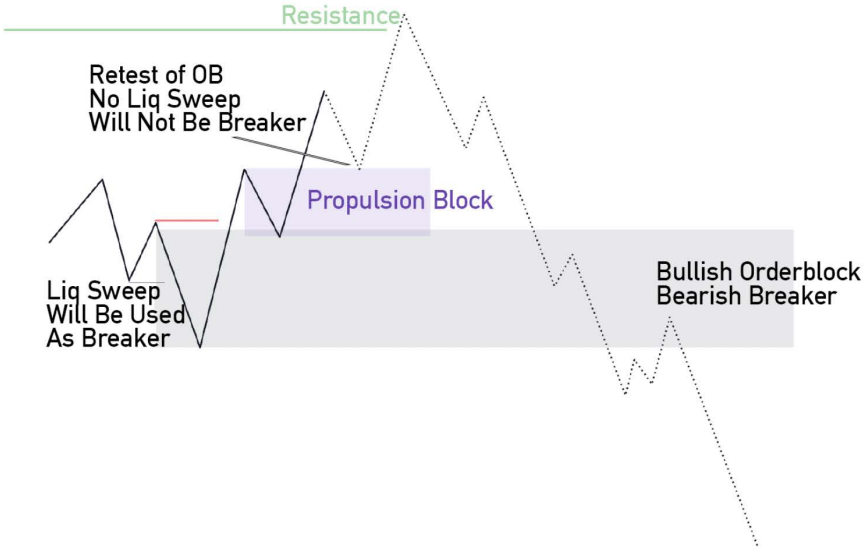
The difference between a propulsion block and an orderblock you'd use for a breaker is like so:



As you can see, a propulsion block is essentially an orderblock formed as a retest of a previous local orderblock.

There is no liquidity sweep necessary for a propulsion block to be formed, however, it **is** a necessity for there to be a liquidity sweep for an orderblock to be chosen as a breaker.

Therefore, we'd use the bullish orderblock formed as our Bearish Breaker POI.



Breaker Measurement

Let’s go through the different ways in which we can measure the breaker block.

First things first, we’ll discuss the initial orderblock formation, and a method in which you can even anticipate the breaker block to be formed.

When our orderblock is formed, there are two ways to measure it.

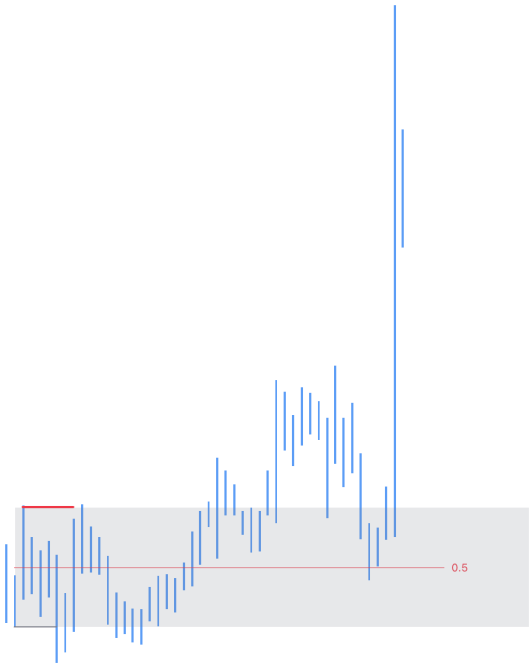
- Using the Mean Threshold (Equilibrium / EQ / 50% / 0.5 on Fibo)
- Using the extensions (Standard Deviations) (1.5, 2, 2.5, -0.5, -1, -1.5, etc)
    - Extensions can be used in 2 ways
        - To anticipate the Breaker & Validate the Orderblock
        - To find expansion levels to take profit / use as a draw on liquidity for your breaker

Mean Threshold

Using the mean threshold in a breaker scenario can be useful to further refine your point of interest, especially if the breaker you have marked out is wide.

If you are actively watching price action trade into the breaker, and the market trades into the 50% of the breaker and shows a strong reaction, that can be a place to start looking for an entry.

For example:



As you can see in this example, we swept liquidity, broke structure, then started to show acceptance or strength into the breaker, then after breaking out, we see a retracement into the breaker, retesting the 50% before expanding.

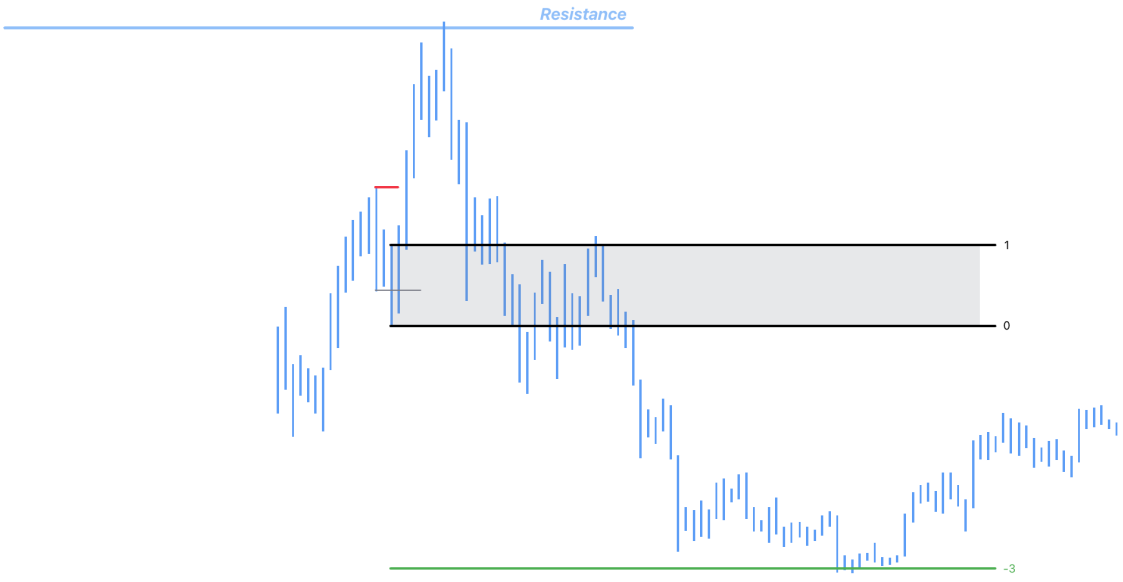
Another thing to note is the candle closes. When we are seeing the market trade around the EQ and there is a push through it, the candle bodies can tell a different story. If you are seeing the bodies respect the 50% level, that can also be an indication that the market is going to reject soon.

Breaker Expansions

When a breaker forms, the standard deviation of breakers always align with some sort of liquidity, imbalance, or gaps. This is when standard deviations, measurements of breakers becomes useful.

- The alignment usually indicates that we have a confirmed breaker block.
    - We can view this as the market algorithm measuring its movements, expanding to an objective in one direction or the other.
- Standard deviation levels of a breaker adds more confluence to our bias and the draw on liquidity that we have already established.

For Example:



BTC Weekly 2021 - 2023

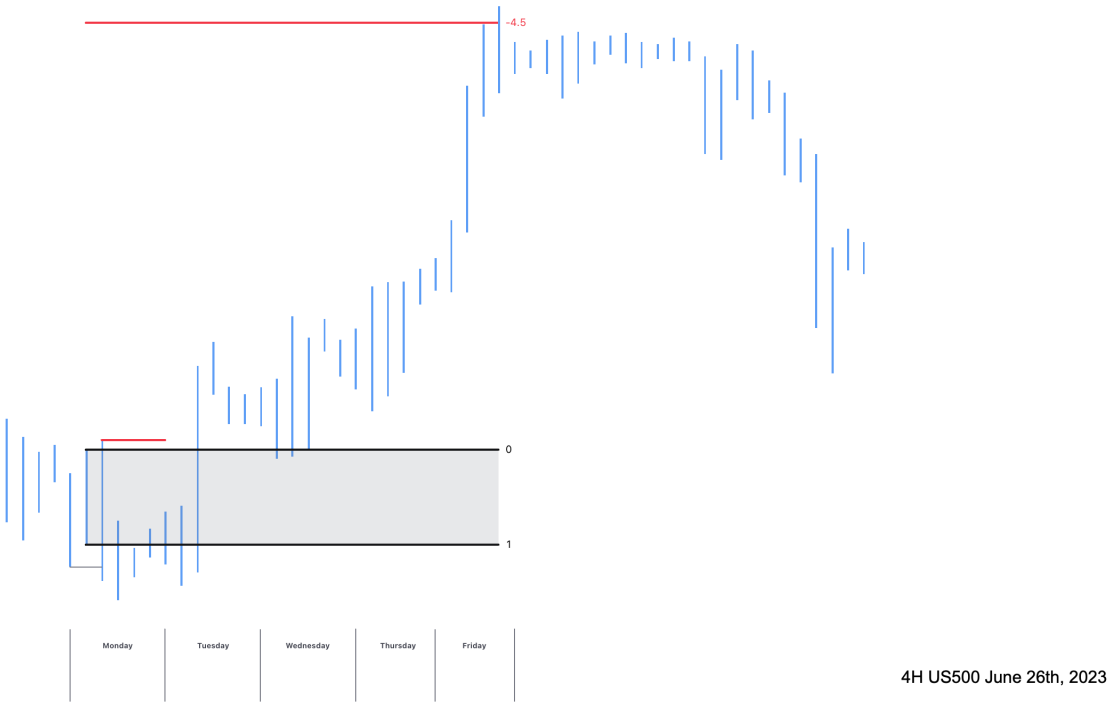
Forecasting Higher Time Frame Ranges Using Breaker Blocks

Another way to use breakers' standard deviations is to measure how much price can run in a day, week, month, etc. How can we forecast these HTF ranges?

- For the entire daily ranges, we will be measuring 5 minute or 15 minute breakers, measurements of 5 minute or 15 minute breakers gives the daily high/low.
- For the weekly ranges, we will be measuring hourly or four hour breakers, the measurements of these breakers gives the high/low of the week.
    - One thing to keep in mind here is that if market creates a midweek reversal weekly profile, this usually causes a new hourly breaker to form. Then and only then we will measure the opposite breaker to see how much of a pullback can it give for the rest of the week.

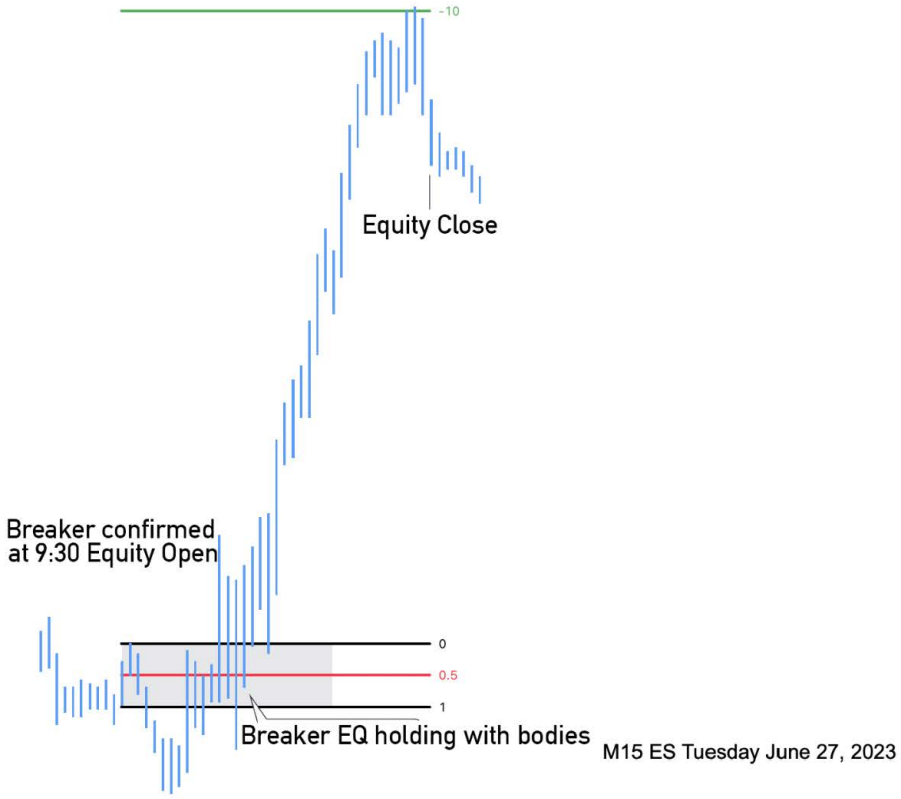
For Example:

Forecasting Weekly Range



4H US500 June 26th, 2023

Forecasting Daily Range



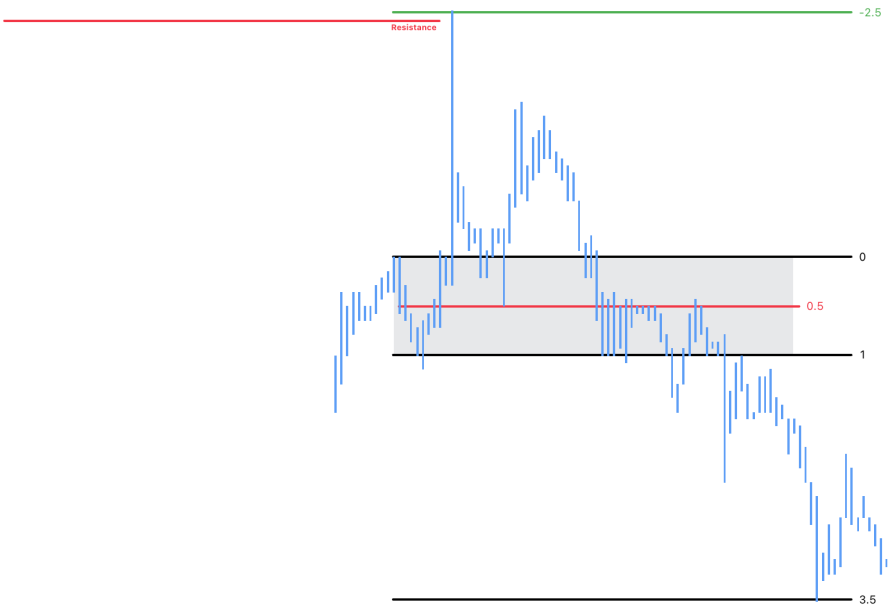
Anticipating the breaker

Using the standard deviation levels, we can also anticipate the breaker.

Remember how we discussed that the orderblock chosen should have a 1:1 expansion?

Well, if you are confident in your bias, what you can do is pull your fib and see if the market expands to a standard deviation level that aligns with your support or resistance level.

If it does, after the market taps your level, you can start building your position by entering in 1/4 or 1/2 of your usual risk. Then after the breaker is confirmed, you can pyramid (add on to your position) at the retest to complete the risk.



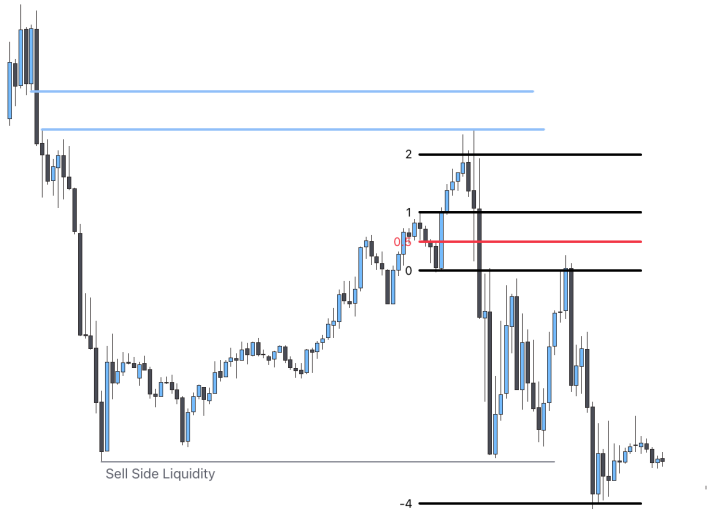
Standard Deviation Levels

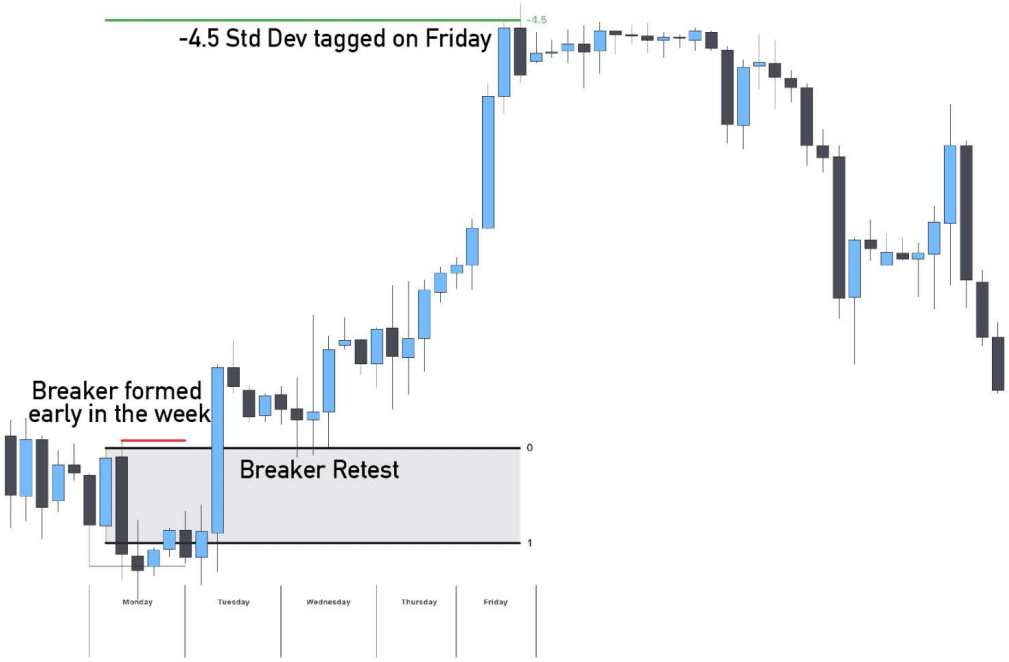
For the Standard Deviation levels, typically you want to use the halves and whole numbers as your POIs.

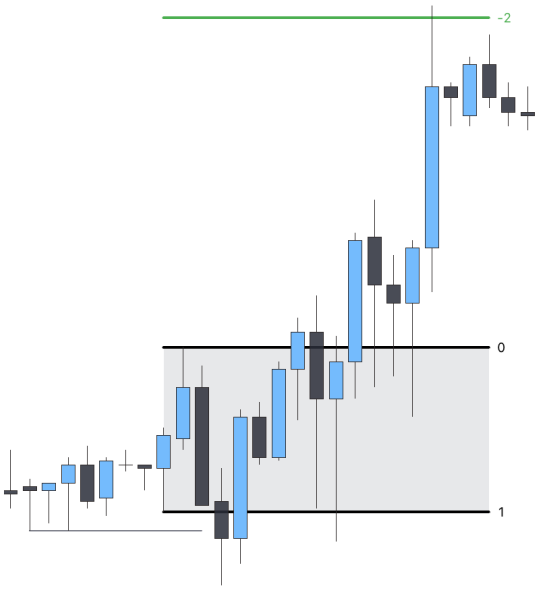
When the market forms a wider breaker, especially on higher time frame, its acceptable for the market to travel to just the -0.5 or 1.5 during the initial orderblock expansion (while it still an unconfirmed breaker)

Here’s what your fibonacci settings should look like.

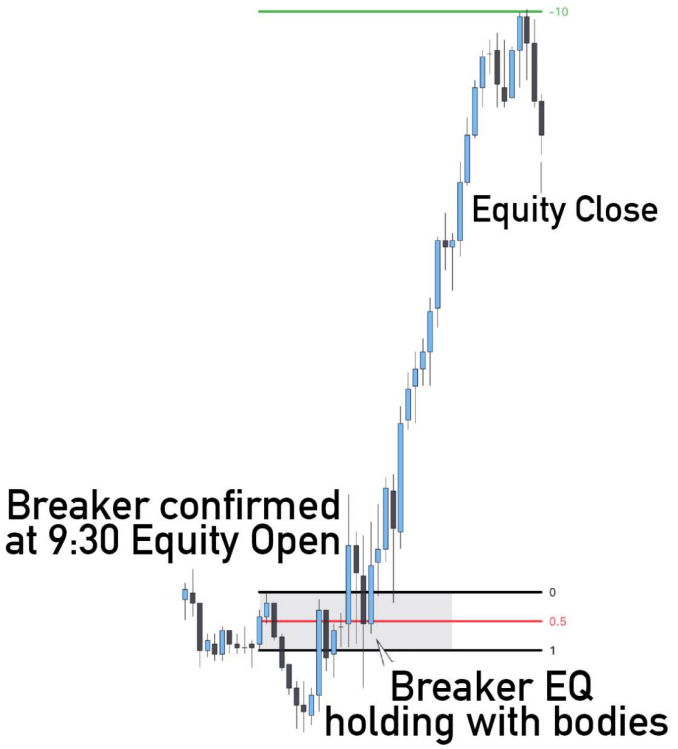
Examples


2
1
0
-4
Sell Side Liquidity


-4.5 Std Dev tagged on Friday
-4.5
Breaker formed
early in the week
Breaker Retest
0
1
Monday
Tuesday
Wednesday
Thursday
Friday



Tuesday



M15 ES June 27, 2023

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